



JOHN CHIANG
California State Controller

October 1, 2013

K-12 Local Education Agencies (School Districts, County Offices of Education, and Charter Schools)
Joint Powers Entities
Certified Public Accountants Performing Audits of California K-12 Local Education Agencies

Re: Annual Audits for Fiscal Year 2012-13

This advisory provides information to assist independent auditors in performing the Fiscal Year (FY) 2012-13 audits of Local Education Agencies (LEAs) and joint powers entities.

K-12 LEA WEB PAGE

The California State Controller's Office (SCO) K-12 LEA web page is located at: http://www.sco.ca.gov/aud_k12_lea.html. This audit advisory, as well as general guidelines for audits of K-12 LEAs, are available on this internet site.

NEW FOR FISCAL YEAR 2012-13

1. Fiscal Year 2012-13 audit reports must be filed with the SCO, California Department of Education (CDE), local County Superintendent of Schools, and, if applicable, the chartering entity, by December 16, 2013. Independent auditors must submit to the SCO one copy of the audit report by U.S. Postal Service, private carrier, or via File Transfer Protocol (FTP). Report submission instructions are posted on the SCO K-12 LEA web page at http://www.sco.ca.gov/aud_k12_lea.html under the Submissions category.

Electronic Report File Naming Convention and Format

Name the file according to the entity name, the document type, and year end. For example, for XYZ Unified School District, the following file names would be used:

- Report = XYZUnifiedRpt13.pdf
- Revisions = XYZUnifiedRevision13.pdf
- Revised Report = XYZUnifiedRevisedRpt13.pdf

The SCO requests that the electronic audit report files be in **unsecured** PDF file format. Electronic files submitted in this format facilitate efficient processing of the annual audit reports.

Correct Identification of Charter Schools

The name of the charter school on the cover of the annual audit report should be the “official” name according to the charter school agreement and the charter school name in the CDE school directory. If the charter school has another name, both names should appear on the cover to facilitate the SCO’s processing of the audit report receipt. Charter school audit reports that are not easily identified may be significantly delayed in the desk review process.

2. The following changes consist of removing compliance requirements from the K-12 Audit Guide for FY 2012-13:

Article 3. State Compliance Procedures: Local Education Agencies Other Than Charter Schools

§ 19824.1. Instructional Time (2011-12): 6 procedures for school districts; 3 procedures for county offices of education

§ 19839. Public Hearing Requirement – Receipt of Funds

§ 19841. Exclusion of Pupils – Pertussis Immunization: 2 procedures

Article 4. State Compliance Procedures: Charter Schools

§ 19851.1. Mode of Instruction (2011-12): 1 procedure

§ 19854.1. Annual Instructional Minutes - Classroom Based (2011-12): 4 procedures

A change in the number of procedures for an existing compliance requirement was added to the K-12 Audit Guide for FY 2012-13:

Article 4. State Compliance Procedures: Charter Schools

§ 19850. Contemporaneous Records of Attendance: 1 procedure

3. The following Statements on Auditing Standards (SAS) issued by the Auditing Standards Board and Governmental Accounting Standards Board (GASB) are effective for audits of financial statements for periods ending on, or after, December 15, 2012:
- 2011 Revision of the Government Auditing Standards (Yellow Book)
 - SAS No. 122, Statements on Auditing Standards: Clarification and Recodification
 - SAS No. 123, Omnibus Statement on Auditing Standards – 2011
 - SAS No. 125, Alert That Restricts the Use of the Auditor's Written Communication
 - SAS No. 126, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted)
 - GASB 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34
 - GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Auditors should consider how the new statements impact their audit reports for FY 2012-13 and update their reports accordingly.

4. The CDE is accepting only electronic versions of the FY 2012-13 audit reports. For instructions on how to submit the annual audit reports to the CDE, please visit the CDE's web page at <http://www.cde.ca.gov/fg/au/ag/submitaudittrpt.asp>.

K-12 AUDIT GUIDE

The K-12 Audit Guide is published by the Education Audit Appeals Panel (EAAP) pursuant to rulemaking procedures. The title of the K-12 Audit Guide for FY 2012-13 is *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*. The K-12 Audit Guide is prescribed in Title 5, *California Code of Regulations*, section 19810, et seq. It is available through the EAAP's website at www.eaap.ca.gov.

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the SCO's annual audit report certification process, a significant amount of time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2012-13, the SCO requests that auditors attend to the following when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected.

1. **State Compliance Findings:** The financial impact of state compliance findings must be quantified. The K-12 Audit Guide includes specific information that must be included in each finding. For example, for attendance findings, the K-12 Audit Guide requires that the audit report include a statement of the number of units of average daily attendance that were inappropriately reported for apportionment and an estimate of their dollar value. If there is no financial impact, the finding must describe the reasons for the auditor's conclusion.

The stated criteria should refer to a California state law or regulation that governs the program. It is not appropriate to cite the K-12 Audit Guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies*, as the criteria.

2. **Federal Compliance Findings:** For single audits, federal compliance findings must be presented in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, subpart E–Auditors, section .510.

If a finding includes multiple programs, the finding should identify each program by Catalog of Federal Domestic Assistance (CFDA) title and number and the name of the applicable pass-through entity, and should provide questioned costs for each program.

3. **Schedule of Average Daily Attendance (ADA):** If there are ANY ADA adjustments due to audit findings, the schedule must display additional columns for the Second Period and Annual Reports reflecting the final ADA after audit finding adjustments, as required by Section 19816(j) of the K-12 Audit Guide.

The schedule of ADA for charter schools must display total ADA and ADA that is generated through classroom-based instruction by grade level. For LEAs that include one or more charter schools in their financial statements, total ADA and classroom-based ADA for each charter school must be presented.

4. **Schedule of Instructional Time – Sponsoring Entity (school district or county office of education) with Charter(s):** When a charter school is included in the sponsoring entity's audit report, a separate Schedule of Instructional Time for each classroom-based charter school must be included in the supplementary information section of the audit report. This schedule is required by Section 19854.1(d) of the K-12 Audit Guide.
5. **Elements of Audit Findings:** Each audit finding should be presented in the level of detail described in the Summary of Audit Report Components, located on the SCO K-12 LEA web page.
6. **School Accountability Report Card (SARC):** Audit procedures for this program are required to be performed for school districts and county offices of education. If the current year SARC document has not been completed, the auditor must review the SARC document issued in the year being audited.

7. **Nonclassroom-Based Instruction/Independent Study:** The K-12 Audit Guide requires that if any ADA is reported for nonclassroom-based instruction/independent study, audit procedures should be performed. If audit procedures are not performed because ADA is below the materiality level for testing, the State Compliance Report should disclose that procedures were not performed, with an explanation.
8. **After School Education and Safety Program:** The K-12 Audit Guide requires that if noncompliance is found, the audit report shall include a statement of the discrepancy between the reported numbers of students served and the totals arising from the supporting documentation. To facilitate audit resolution by the CDE, the finding should also include the total number of students reported and the adjusted number of students, as identified in the audit finding.

If you have any questions or need additional information, please contact Carolyn Baez, Chief, Financial Audits Bureau, Division of Audits, by telephone at (916) 324-6442, or by email at leaaudits@sco.ca.gov.

Sincerely,



JEFFREY V. BROWNFIELD, Chief
Division of Audits
State Controller's Office

Attachment

cc: Tom Torlakson, State Superintendent of Public Instruction
California Department of Education